Business Angels Take Latin America/Caribbean Under Their Wings

There are more than 20 networks of business angels operating in Latin America and the Caribbean, with transactions amounting to $26 million.

April 11, 2013

Only 10 percent of the projects presented to business angels get financed. That's according to a recent study of more than 20 active networks of private investors in Latin America and the Caribbean, conducted by IESE's Juan Roure, Amparo de San José and Juan Luis Segurado.

Despite this low rate, new business projects increasingly depend on these business angels, due to the current credit restrictions.

As such, it is essential to identify the strengths and weaknesses of these networks, in order to promote their development and boost the economy.

Inexperienced investors

Business angels have emerged as the best partners for spurring the growth of dynamic companies and creating jobs, by providing "smart capital" in segments that are not mature enough to attract traditional venture capital.

The sad fact is, budding companies are often excluded from traditional bank financing owing to the risks and lack of guarantees or security.

Latin America and the Caribbean, where angel investment is still in its infancy, would benefit from a higher level of professionalism.

Leaders of the networks that participated in the study stressed the inexperience of many

©IESE Business School

investors.

Other major weaknesses include the quality of the projects, which are usually not yet in the investment phase, and the unfamiliarity of many entrepreneurs with the basics of investment.

Five recommendations

The report highlights five target areas to strengthen and promote the functioning of private investor networks.

- *Increase the number of investors*. Networks require new members to close more deals. Many of these networks currently have fewer than 35 investors.
- *Empower investors*. Many have little or no experience. They should be better groomed and trained as investors.
- *Train the entrepreneurs.* Many projects fail to meet the ideal requirements and are not viable for investment.
- *Turn to investors from other countries.* There is a need for broader collaboration between networks based in different countries.
- *Expand the catalog of financial instruments for companies with high potential.* The most developed networks demand joint-venture funding, along with other instruments, such as participatory loans, in order to increase the funding available in each round.

The chilean success story

The development of business angel networks in the countries analyzed is uneven. Of the 31 networks created since 2004, currently 21 remain active. Collectively, the 665 participating investors have carried out 99 transactions, with a transaction volume in the vicinity of $26 million.

Argentina, Chile, Colombia and Mexico each have more than one active network. However, angel activity is nonexistent in El Salvador, Nicaragua, Bolivia and Paraguay.

Chile has created up to six networks in the past eight years. Drivers of success have been the public experience and impact achieved by the Southern Angels network and the role of CORFO, a government agency, as a sponsor behind the creation of other networks.

The status of angel activity in Chile indicates that the right incentives arouse interest through

©IESE Business School

the formation of networks, and that impeding the disappearance of inefficient networks can be counterproductive.

Models of private investor networks

Many business angels act independently in a relatively anonymous manner, which makes them largely inaccessible. As such, networks of business angels are a viable gateway to funding for entrepreneurs.

Different models of networks coexist in Latin America and the Caribbean. Some function as open platforms, without commitment to investment, such as the IAE alumni network in Argentina or "Enlaces" in the Dominican Republic.

Investment clubs have fewer members and occasionally have an associated fund or investment firm. The Venture Club network in Panama, which operates through a company that acts as an investment vehicle, is one example.

Other networks are designed as platforms for a wider range of services, such as Capitalia, a financial boutique that offers guidance in the search for funding, as well as a line of financial services for small and medium enterprises.

Flow and source of projects

Networks use different methods to bring new projects to investors. The most common is the investment forum, followed by individual presentation of the entrepreneur to the investor.

As for the source of projects, most arrive directly to the network (30 percent), although other key vehicles exist for channeling investments, including: incubators (25 percent), universities (18 percent), employees (15 percent) and business angels themselves (12 percent).

More than half of the projects reaching these networks involve start-ups (38 percent) or seed capital phases (28 percent). However, there is also a significant presence of more mature ventures that are undergoing a growth phase (24 percent). Only 10 percent are in the idea stage.

©IESE Business School